

ECONOMIC ACTIVITY PULSE

# Turkey: Activity starts to recover

Uğur N. Küçük / Seda Guler / Asuman Kemiksiz / Gizem Onen

The industrial production (IP) grew by 2% (WDA YoY) in October in line with our forecasts (2%) but slightly above the market call (1.5%). After contracting by 3.2% in the 3Q, IP's return to growth, although slightly, confirming our expectations of a still modest recovery in 4Q. Elsewhere, slightly contracting (-0.2% YoY) retail sales, point to a still weak household demand in October. However, our high frequency hard-data indicators suggest a slight pick-up in retail sales plus auto and a further improvement in the IP in November. We maintain our below consensus 2.3% GDP forecast for 2016 with neutral balance of risk.

## Exporting sectors were weak but set to recuperate in November

In unadjusted terms, energy and capital goods production were the only items that contributed positively to overall production among the major subgroups, while the production of consumer goods on top of durables and intermediary goods continued to contract, but to a limited extent. The slight recovery was more visible in domestic demand oriented sectors such as food, non-metallic minerals, chemistry and pharmaceutical products. On the other hand, exporting sectors gave a blurred a picture as the pick-up in auto production could not compensate the negative contributions from textile, clothing, metals and machinery. Going forward, recovering exports will be supportive for November IP, mostly on the back of the auto sector. Besides, the acceleration in consumer loans and the strengthened policy stimulus are likely to boost consumer demand.

Figure 1

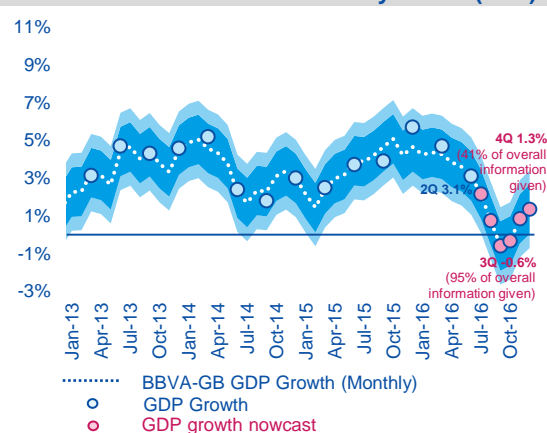
Activity Indicators\* (3MA, YoY, SA)

|                        | 2015  |       |       | 2016  |       |       |       |       |       |       |       |
|------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                        | Mean  | Dec   | Mar   | Apr   | May   | Jun   | Jul   | Aug   | Sep   | Oct   | Nov   |
| Industrial Production  | 3.7   | 7.5   | 5.6   | 4.5   | 4.1   | 2.9   | 0.1   | -1.4  | -3.2  | -0.4  |       |
| Non-metal Mineral      | 15    | 5.4   | 5.6   | 6.0   | 1.3   | 0.4   | -3.3  | -1.5  | -3.0  | 2.3   |       |
| Electricity Production | 4.1   | 6.5   | 4.9   | 4.5   | 4.4   | 6.9   | 6.4   | 6.6   | 3.1   | 3.3   | -3.3  |
| Auto Sales             | 3.9   | 3.5   | -6.0  | -6.8  | -0.3  | 2.5   | -4.6  | -0.3  | -6.2  | 4.5   |       |
| Tourist Arrivals       | 0.4   | -3.9  | -0.3  | -0.7  | -27.6 | -35.6 | -37.4 | -38.3 | -36.0 | -33.1 |       |
| Number of Employed     | 3.8   | 3.1   | 3.2   | 3.3   | 3.1   | 2.4   | 1.7   | 1.3   |       |       |       |
| Number of Unemployed   | 4.0   | 1.8   | 0.1   | 0.1   | 1.4   | 4.5   | 8.0   | 11.2  |       |       |       |
| Auto Imports           | 6.5   | 5.7   | 0.2   | -2.0  | 0.8   | 2.6   | -3.5  | -9.7  | -0.2  | 8.9   | 0.7   |
| Auto Exports           | 7.3   | 23.1  | 6.6   | 0.9   | 22.4  | 2.6   | 24.3  | 11.7  | 0.2   | 9.9   | 6.6   |
| Financial Conditions   | 76.0  | 80.5  | 84.8  | 87.0  | 85.3  | 86.7  | 91.2  | 88.4  | 88.6  | 92.6  |       |
| Credit Growth-13Week   | 20.5  | 0.2   | 9.4   | 12.1  | 11.3  | 13.5  | 8.8   | 9.1   | 6.0   | 10.0  |       |
| PMI Manufacturing      | 51.5  | 52.2  | 49.2  | 48.9  | 49.4  | 47.4  | 47.6  | 47.0  | 48.3  | 49.8  | 48.8  |
| Real Sector Confidence | 107.4 | 108.8 | 104.1 | 105.7 | 105.7 | 104.3 | 106.3 | 103.0 | 107.1 | 103.8 | 107.6 |
| MICA Forecast          |       |       |       |       |       |       |       |       |       |       |       |
| GDP YoY                |       | 5.7%  | 4.7%  |       |       | 3.1%  |       |       | -0.5% | -0.3% | 0.8%  |

\* Series are non-calendar adjusted. \*\*Garanti- BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. A detailed explanation was made in Turkey Economic Outlook 3Q2015. Source: Garanti-BBVA Research Monthly GDP Model, Turkstat

Figure 2

Garanti-BBVA Research Monthly GDP\*\* (YoY)

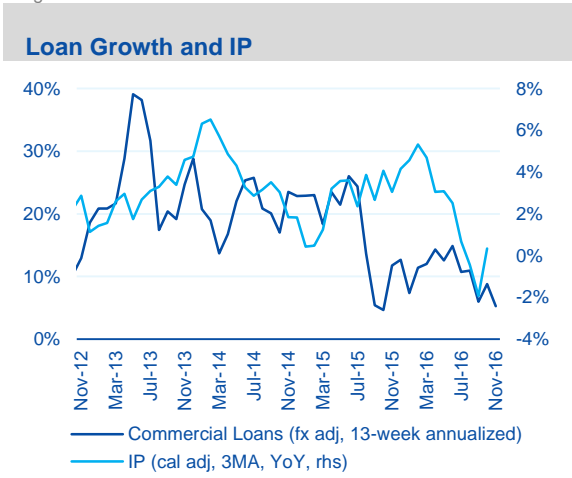


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## Risks are balanced on our below consensus 2.3% growth estimate for 2016

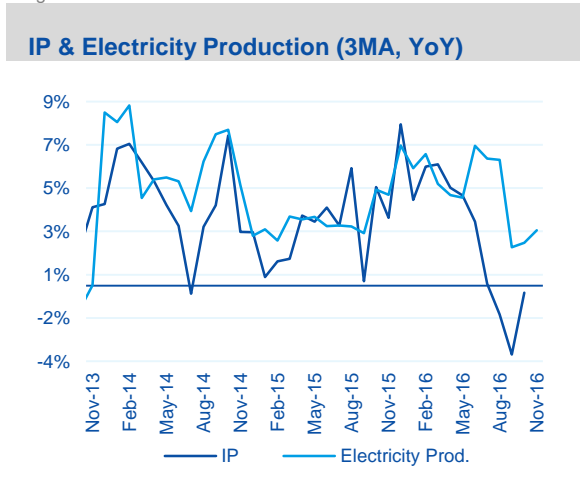
3Q GDP data will be released on the 12<sup>th</sup> of December where we expect a modest contraction. We expect solid exports to the EU to support production in the last two months of the year, while domestic demand recovery will be only gradual. **For 4Q, our monthly GDP growth model points at a moderate pick-up. We keep our below consensus 2016 growth forecast at 2.3% with neutral balance of risks.**

Figure 3



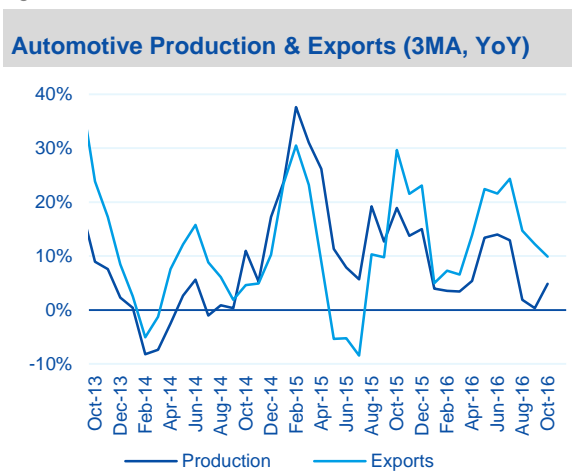
Source: Garanti Research, Turkstat, CBT, BRSA

Figure 4



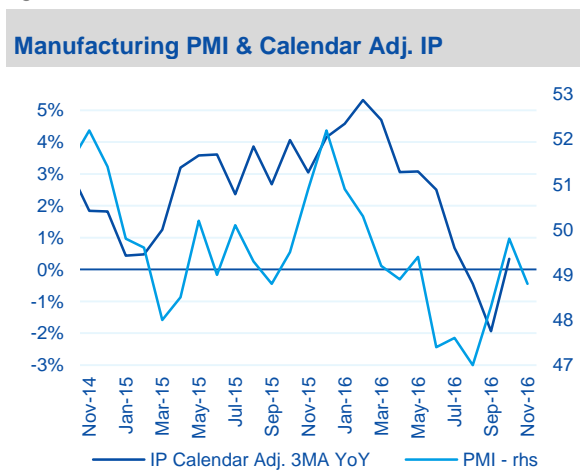
Source: Garanti Research, Turkstat, TETC

Figure 5



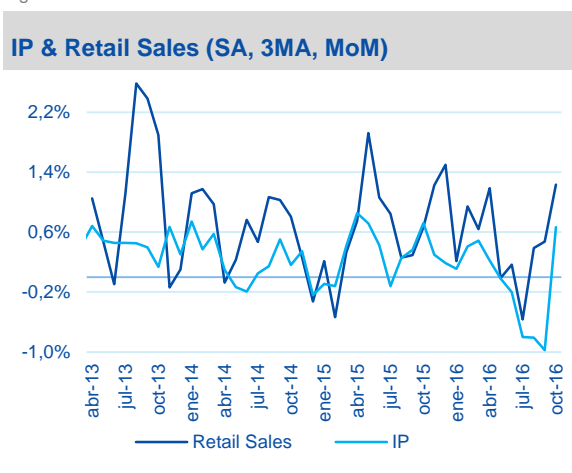
Source: Garanti Research, Turkstat, CBT, AMA

Figure 6



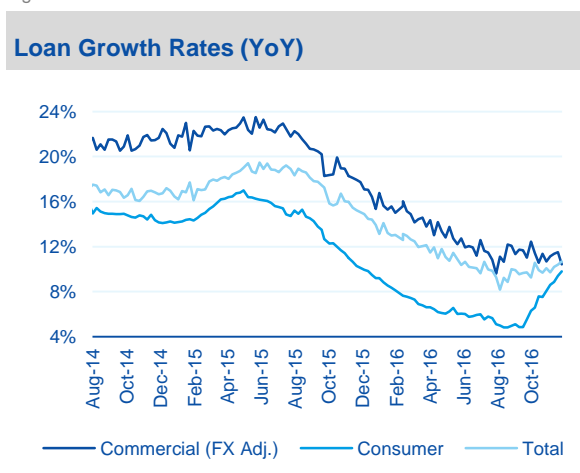
Source: Garanti Research, Turkstat, Markit Economics

Figure 7



Source: Garanti Research, Turkstat

Figure 8



Source: Garanti Research, Turkstat, CBT, BRSA

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